

# Speech to the Annual Shareholders' Meeting

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Chairman of the Board of Executive Directors  
of BASF SE

The spoken word applies.

Annual Shareholders' Meeting BASF SE  
on April 29, 2016

 **BASF**  
We create chemistry



Dear shareholders, ladies and gentlemen,

On behalf of the Board of Executive Directors, I would like to welcome you to the BASF Annual Shareholders' Meeting at the Rosengarten Congress Center in Mannheim.

2015 marked the 150th birthday of our company. The exhibition in the foyer will give you some idea of how we celebrated our anniversary year. Yes, we celebrated. But, more important, we also looked to the future. We used the year to connect and exchange ideas with customers, employees, researchers, suppliers and others, such as non-governmental organizations, around the globe. The focus was on working together to develop ideas and solutions for the many challenges facing our world.

In just a few decades, there will be nearly 10 billion people living on this planet. And they will want a better quality of life, and require more energy and more food. This is a long-term challenge that can only be met if we lower resource consumption.

This, I am convinced, will require more and – most important – even better chemistry. Chemistry has always been a driver for progress and civilization. It is an indispensable part of our lives. More than 90% of all goods produced are enabled by chemistry in some way.

BASF is closely connected with major industrial sectors and their value chains. Here, we initiate innovations and, in many cases, often make technological progress possible. Our aim is to make our customers even more successful and to create value for society.

This is only possible if we question existing practices. We need new, sustainable and intelligent solutions in many areas.

Following new paths and looking ahead – this also characterizes BASF's further development. Our strategy is based on careful analysis of our market and competitive environment, and the challenges and opportunities it presents.

You are surely wondering why – after many years of strong growth and rising earnings – BASF posted declines in sales and earnings in 2015 and expects these figures to decrease again in 2016. Have the underlying conditions for

our business, our markets and our competitive environment changed so fundamentally that we need to adjust our strategy? Or are these short-term fluctuations in the economy and demand, not to mention the price of oil, which even BASF, with its broad and global business, must face?

### **Review of 2015**

A look back at last year provides some initial answers. We experienced hardly any macroeconomic tailwinds in 2015. Instead, there were several developments in the economic and political environment that negatively influenced our business: above all, slower global economic growth and the unexpectedly steep further decline in the price of oil. The latter had a dampening effect on our business in several respects.

What goals had we set for ourselves for 2015? We had been aiming to slightly increase sales compared with the previous year and to maintain the high level of income from operations (EBIT) before special items. We had anticipated that the oil price would fall considerably and our planning was based on an oil price of \$60-70 per barrel for Brent crude. We forecast a significant decrease in earnings in the Oil & Gas segment, which we believed we could offset with better results in our chemicals activities and crop protection business.

We had a good start to the year and in the first quarter of 2015 our goals appeared realistic. Despite slightly lower sales volumes in the chemicals business, our margins developed positively. And the oil price moved within the range of our assumptions.

But as the year progressed, global economic growth soon began to falter. In particular, the emerging markets, which had been booming in recent years, experienced a marked slowdown. This was particularly evident in China, where economic growth was considerably weaker than had been expected at the beginning of year. This also curbed growth in other emerging markets in Asia. In addition, Brazil and Russia both fell into a deep recession.

Weaker global economic growth coupled with the oversupply of oil caused the oil price to sink lower and lower: Ultimately, the 2015 average price fell by nearly half compared with the previous year, to \$52 per barrel.

In this economic environment, BASF Group business development did not meet our expectations. Sales and earnings for the full year 2015 were lower than in the previous year. Sales declined by 5% to €70.4 billion, primarily due to the divestiture of our gas trading and storage business to Gazprom, which we completed at the end of the third quarter.

EBIT before special items was down by 8% to €6.7 billion. This reflected in particular the price-related decline in the Oil & Gas segment, despite considerably higher production. The earnings growth in the chemicals business could only partially offset this decline. EBIT fell 18% compared to the prior-year level, largely owing to impairment charges of around €600 million recognized due to lower prices in the Oil & Gas segment. Overall, the oil price thwarted our plans for 2015 since our customers, especially in the Chemicals segment, began demanding lower prices over the course of the year, tightening our margins.

You can find detailed information about the performance of the individual businesses in our 2015 annual report. The report also shows BASF's strong balance sheet and financial soundness as well as our strong cash flow, which reached a record level of €9.4 billion.

As shareholders, you are of course especially interested in what ultimately lands in your bank account. The Board of Executive Directors and Supervisory Board propose to you today to once again increase the dividend by €0.10 to €2.90 per share, which equates to a dividend yield of around 4%. The dividend payout to our shareholders would thus be €2.7 billion. Our proposal reflects our long-term dividend policy. We aim to increase our dividend each year, or at least maintain it at the previous year's level. Above all, our proposal demonstrates our confidence in BASF's future development – even with the knowledge that 2016 will also not be an easy year.

## **Outlook 2016**

Now I would like to talk briefly about the first three months of 2016 and what we are planning for this year. It was a turbulent start on the global commodity and stock markets. The oil price plunged even further, dipping below \$27 per barrel in January – a level that had not been seen since 2003.

We experienced a subdued start to the year. Compared with the first quarter of 2015, sales fell by 29% to €14.2 billion. This was mainly due to the divestiture of the gas trading and storage business. The lower oil price also resulted in declining prices in our chemicals business. Overall sales volumes matched the level of the same quarter of the previous year. We increased volumes slightly in the Functional Materials & Solutions, Oil & Gas and Performance Products segments, while volumes were slightly lower in the Agricultural Solutions and Chemicals segments.

In the Performance Products, Functional Materials & Solutions and Agricultural Solutions segments, we were able to increase income from operations before special items. As expected, earnings in Oil & Gas and Chemicals did not match the prior-year level. Consequently, income from operations before special items was €1.9 billion, down 8% compared with the prior-year period.

We expect the global economy to grow by 2.3% this year, a similar rate as in 2015 (+2.4%). Global chemical production will likely increase by 3.4%, slightly lower than last year (+3.6%). We anticipate an annual average oil price of \$40 per barrel. In light of the oil price fluctuations seen last year, this figure is particularly difficult to forecast.

The business environment will thus remain challenging and we do not expect a rapid recovery in our markets. Nevertheless, we want to increase sales volumes in all segments. However, as a result of the divestment of the gas trading and storage business and the lower oil and gas prices, sales of the BASF Group in 2016 will decline significantly. We want to improve earnings in the chemicals and crop protection businesses. However, this will likely not be sufficient to compensate for the sharp decline in earnings in the oil and gas business. We therefore expect EBIT before special items to come in slightly below the 2015 level. And let me be clear: Given the current volatile and challenging environment, this is an ambitious goal. The greatest risk in accomplishing this goal remains the oil and gas prices. Currently, the oil price is around \$40 per barrel, in line with our assumptions.

## Clear strategy

Ladies and gentlemen, challenges are nothing new to us. They are part of our day-to-day business. The important thing is that we continue to evolve and find the right responses. In doing so, it helps to have a clear strategic direction – particularly when times are tough. Our “We create chemistry” strategy sets out the framework that will enable us to continue to grow profitably.

Global trends form the foundation of this growth and I mentioned a few of these trends earlier:

- The world’s population will grow to nearly 10 billion by 2050
- The share of the global population living in cities will grow from 50% today to around 70% by 2050
- Primary energy demand will rise by 50% by 2050 and demand for food will rise by 30%

This will present enormous challenges for us all. And we are confident that chemistry will provide the solutions needed to meet these challenges, whether it is by increasing farmers’ yields, making cars more efficient, or developing new energy storage technologies. We want to take advantage of these growth opportunities.

It is clear that this growth will continue to occur mainly outside of Europe, the United States and Japan. In recent years, emerging markets have contributed more than 90% to global growth in the chemical industry. And countries such as China will remain strong drivers of demand for chemistry in the future. Not only will they experience above-average growth, they will also make every effort to improve quality-of-life factors – such as air, water and food, to name just the most important ones – quickly and sustainably.

At times, some people express doubt whether these emerging markets have truly found the secret of “golden” growth. They point to the BRIC countries – Brazil, Russia, India and China – as a cautionary example since two of the four cylinders of this growth engine (Russia and Brazil) have stopped firing. Yet these countries, too, will find their way back to growth.

Do we also expect the oil price to recover? Just two years ago everyone was certain that \$100 per barrel was normal and reflected the scarcity of this source of energy and raw materials. But today we have an oversupply and most experts believe oil prices will not return to the \$100 level in the short term. Why?

More oil and gas is being discovered than ever before – contrary to the assumptions of many skeptics and growth critics. The emerging markets are also improving their energy efficiency. This is good news for resource conservation and for climate protection.

Yet demand for oil is still growing. The glut will come to an end and eventually new drilling activity will be necessary. We therefore expect that the oil price will rise again in the coming years, otherwise the necessary investments in additional oil production would not be made. Furthermore, we expect there will be no single global price for natural gas in the future. The price in the United States will remain considerably lower than the European level, which therefore represents a significant advantage for our U.S. competitors.

Thus, it is even more important that we finally decide on the long overdue regulations for natural gas extraction in Germany, as domestic production has been declining for many years. Fracking technology can be used responsibly here as well – we have proven this for over 40 years. Berlin has to make a decision now in order to secure jobs in oil and gas production in Germany.

And what's happening in Europe? Here, chemical production has grown by only about 0.3% annually in the past five years. This is basically stagnation. We do not have the advantage of low raw material and energy costs – quite the contrary. Innovation is our only chance for growth. That is why it is vital to create the conditions here that encourage innovation. We need rules that take a balanced approach to opportunities and risks and do not unilaterally shackle business. One such example is the looming tightening of regulations for crop protection products. Therefore, the need for dialog, openness and transparency is greater than ever in order to provide a balanced view of the opportunities and risks of chemistry.



In Europe, we need the willingness and the courage to implement fundamental reforms. Two of the multitude of issues are especially important to us.

One of these is TTIP, the Transatlantic Trade and Investment Partnership. We support this deal – not because we want weaker regulations but because we benefit from strong, clear common rules. Cutting red tape and eliminating duplication of effort would free up more resources at both large and small businesses to focus on creating innovations. Mutual recognition of test methods and approval procedures, for example, would mean fewer animal studies.

The other issue is Brexit: People who think Europe would get along fine without the U.K. are fooling themselves. Nothing will improve if Britons vote to leave the E.U. on June 23.

This will also not be good for Europe's standing in the world and that of European companies. We have to ensure that we will be able to take advantage of our innovation power and our entrepreneurial strength in the future, too. We are already seeing, for example, competitors from China becoming more confident: They are buying up European companies – on behalf of the state, mind you. So far, Europe has been a role model in addressing these challenges. We must ensure it stays one in the future.

Dear shareholders, what does all of this mean for chemistry and for BASF's strategy? What are its core aspects? Are we on track?

The short answer is: Yes! The basic underlying conditions for our business, our markets and our competitive environment are intact. Our strategy is based on three key strategic levers: innovation, investments and portfolio management.

## **1. Growth through innovations**

First of all: research and development. It is risky. Many things are successful, some are not. Overall, innovation is our key driver of growth and success.

Let's take automotive construction as an example: Innovations based on chemistry have a long tradition in this segment. Today, there are just under 1.2 billion vehicles on the road worldwide, and this figure is likely to rise to

about 2 billion by 2050. The number of cars is growing especially in the emerging markets of China and India. This is good for people's mobility, but it has effects on the environment.

Our goal is to help minimize this impact. We do this by helping our customers comply with strict regulations: for example, with increasingly powerful catalysts in vehicles. Or, with plastics-based materials that replace steel parts and make cars lighter. We have already developed shock absorbers and engine mounts made of plastic. In the future, we will also be able to replace larger metal components in vehicles. Lowering the weight of a vehicle by 100 kilograms can reduce fuel consumption by as much as 10% and cut carbon dioxide emissions by around 8 grams per kilometer.

### **Expansion of Research Verbund**

In 2015, we once again slightly increased our research expenditures to €1.95 billion. Around 10,000 employees worldwide work in research and development, finding innovative solutions for our customers. The spectrum is wide: We supply nearly all industries and conduct research around the globe. This ensures that we are close to our customers' markets in all key regions. Our R&D addresses their specific needs.

We will continue to extend our global footprint. Just one example:

Last year we expanded our research activities in Asia. In Pune, India, we opened a new Agricultural Research Station. The Pune R&D center will investigate topics that are particularly relevant to India, such as crop diseases typical for the local climate. Global projects, which go on beyond classical crop protection, will also be conducted there.

In Shanghai, we expanded our Innovation Campus Asia Pacific. The Innovation Campus is BASF's largest R&D center in Asia. A few hundred researchers work here, mainly on new materials and systems as well as formulations for growth industries such as automotive, construction, health and nutrition, and home and personal care. Since the beginning of this year, Shanghai has also been the global headquarters of our research platform Advanced Materials & Systems Research.

With our global presence, we also improve opportunities for cooperation with outstanding partners.

Around the world, we have a network of more than 600 universities, research institutes and companies. This lively exchange fosters creativity and the development of new and innovative solutions. After all, innovation does not occur in isolation. Instead, we are opening up so that we can work with our partners to better tap new potential.

One example: In our program UNIQUE, we work intensively with 15 leading universities in the United States, Europe and Asia. This network includes Harvard University, the Swiss Federal Institute of Technology Zurich (ETH) and Kyoto University. Through this close collaboration, we gain access to the scientific expertise of our partners, to new technologies and to talent from various disciplines. This helps us initiate new projects, for example, in the area of modern materials and formulations.

Last year, we reached the goal we had set for ourselves five years earlier: generating sales of €10 billion from products that have been on the market for less than five years. The foundation of this success is our research pipeline – it is well filled and currently comprises around 3,000 projects. One testament to our innovation strength is our pipeline of new crop protection products that we want to launch by 2025: We currently expect the peak sales potential here to be €3 billion.

One example from the pipeline is our new fungicide Revysol<sup>®</sup>, a potential blockbuster. Our research has shown its outstanding biological performance against numerous pathogens. Just over a month ago, we submitted our dossier for approval in the European Union. This is an important step toward worldwide registration. We are planning to launch the product on the market by 2019.

We regularly review our portfolio of research and development projects. In doing so, we define focus areas and decide if projects need to be adapted or even ended.

We have done this for plant biotechnology, where, as part of our regular review we decided to refocus our research portfolio. Some projects are being discontinued, others are being pursued more intensely. We will discontinue projects with extremely high technical challenges, which would require significant time and financial investment. We will intensify, for example, our

projects relating to herbicide tolerance and fungal resistant soybeans. We are also making changes at our sites in North America and Europe, which will reduce some positions. However, we are convinced that this puts BASF on the right track to successfully implement the most promising research projects.

Ladies and gentlemen, the success of an innovation is tightly linked to the ability to develop tailor-made solutions for the customer, which is why our employees are working increasingly more closely with our customers. What do our customers need? What are they working on? How do they want to differentiate themselves from the competition?

### **Customers count on sustainability**

One trend we are seeing across all customer sectors is an increased focus on sustainability: in everything from cars to construction, cosmetics to paper and cement. This presents us with business opportunities that we want to tap with innovations.

At last year's Annual Meeting, I presented an evaluation method called Sustainable Solution Steering®. We have now used this method to analyze almost our entire portfolio with regard to sustainability. We asked: Are our products leading in terms of sustainability in their application? Is there a need for improvement or should we look for alternatives for certain products? Today, we have the results of over 60,000 analyses. What we found is that we currently generate around a quarter of our sales from products that make a significant contribution to sustainability in the value chain. We want to continue to increase the share of our sales generated by these products. On average, they have higher rates of growth and are more profitable.

One of these products is MasterEase®, which can be used to make the construction of skyscrapers faster and more climate-friendly. This concrete admixture helps to conserve water and energy during the production and application of concrete. It also offers other advantages. Cement, which requires a lot of energy and releases a lot of CO<sub>2</sub> in production, can be replaced with waste products such as blast furnace slag and fly ash thanks to MasterEase. Furthermore, MasterEase improves the viscosity of concrete while reducing its water content considerably. And water is scarce in many countries. At the same time, the concrete meets the most demanding

requirements. Since the market launch in 2015, sales of MasterEase have significantly exceeded our expectations.

### **Industry 4.0**

Another example of our innovative strength is “Industry 4.0,” which refers to the connection of digital technologies, such as the Internet of Things and 3D printing, with value chains and processes in industry. All of us are digitally connected in some way in our everyday lives – whether via our smartphones, watches, or increasingly, our cars. Ever more powerful computers and the quantum leaps in data transfer are now opening up new possibilities, also for chemistry.

Networking of data offers enormous potential for BASF. Although much of our production is already automated, this new development will go much further. And we are looking at where digitized processes can complement or even replace existing structures. This makes sense anywhere where you can achieve results more efficiently, safely, quickly or simply. In parallel, new digital business models are being created.

The digital transformation is a good fit for BASF’s Verbund approach and includes all steps in the value chain: from research and development to purchasing and logistics, production, marketing, sales and customer service. The entire field is very exciting and extremely ambitious.

## **2. Investments in future growth**

This brings me to the second factor we leverage to reach our growth targets: investments.

In 2015, we invested substantially in future growth, and made considerable outlays in advance. At more than €5 billion, our investments in new plants, expansion and upgrading were significantly higher than the corresponding depreciation. In 2015, these expenditures were not yet always matched by associated sales revenues. With these investments, we are focusing on three strategic directions.

First, we want to participate in emerging-markets growth. For example, by building plants for automotive coatings and automotive catalysts in China. There we are also building the first plant to produce isononanol, an important

intermediate. Another example is our new production complex for acrylic acid and superabsorbents in Brazil, which are also the first production facilities of their kind in South America.

Second, we want to take advantage of the inexpensive raw materials in the United States and thus strengthen our Verbund production there. One such example is our new ammonia plant in Texas, which we are building together with the Norwegian company Yara. Furthermore, we are evaluating a major investment in methane-based propylene production. But the economic viability of this project is also highly dependent on the oil price – the higher, the better. With oil at \$40 a barrel, it does not make financial sense right now. This means we have to make an important decision: Do we build now, or wait until the oil price has made a significant and lasting recovery?

Third, we need to strengthen our large sites in Europe, in particular Ludwigshafen, in order to maintain their competitiveness. In Ludwigshafen, we have started this renewal with the construction of the TDI complex – an important component of polyurethane plastics – and the expansion of precursor plants. Further steps will follow.

This year we are focused on fully utilizing the new capacities. In the current business year, we want to reduce our investments by nearly a fifth compared with last year, to just above €4 billion. This is still a large sum.

But investments alone will not suffice. Last year in Germany, we had high wage increases that were considerably above the growth in productivity, i.e., the production output per employee. In the long term, this is not a healthy development. Therefore, improving productivity will be especially important in the coming years.

This is one of the reasons why we will continue to vigorously pursue our cost-reduction and operational excellence programs. In September, we launched the new DrivE program, which aims to contribute €1 billion to earnings annually by the end of 2018. Last year we completed our previous program STEP, which started in 2012, ahead of schedule and with higher earnings effects – a total of €1.3 billion.

### **3. Focusing on high-growth businesses**

Our third strategic lever is portfolio management.

In 2015, we continued to restructure our portfolio. Our goal is to concentrate on high-growth businesses. We divested certain business areas, such as the global business with textile chemicals and parts of our business with pharmaceutical chemicals. We completed an asset swap with Gazprom at the end of September 2015. We thus divested sales of around €12 billion annually, but this business had relatively low margins. In return, we are further expanding our oil and gas production activities in Western Siberia. Production there is scheduled to start in 2018.

We continue to refine our portfolio in 2016 as well. At the end of February, we reached an agreement with AkzoNobel to sell our industrial coatings business. This will enable us to focus even more on our core business with automotive coatings. A few days ago we agreed to sell our Polyolefin Catalysts business to the U.S. company Grace.

We also strengthened our portfolio last year through acquisitions. We carried out a number of smaller takeovers in Taiwan, China, Japan, Mexico and Germany. Our focus here is on innovations and technologies. In the future, we will also carefully investigate possible acquisition targets in these areas. I know there is some expectation – maybe even on your part, dear shareholders – that there must be a big deal in the offing, something impressive. But we feel it is important to have a competitive position in every business we are active in. It is true that we have the strongest balance sheet and the greatest financing strength in the chemical industry. And money appears cheap: The interest rates for our loans are heading closer and closer toward zero. Nevertheless, you can be sure that we will rationally examine potential targets and conduct careful investigation into whether they would create value for our shareholders.

Ladies and gentlemen, last year was a challenging one for BASF. Especially in situations like these it is important to be able to count on an excellent team. Everywhere at our sites, BASF employees have been very aware of what is going on and have rolled up their sleeves and energetically tackled the challenges.

This puts me in an optimistic mood for the current year, which will also be a demanding one. On behalf of the Board of Executive Directors, I would like to extend my heartfelt thanks to all employees for their great dedication and effort. Together we will continue to work on being an attractive supplier and partner to our customers.

Our 150th anniversary year was a milestone. This history forms the foundation on which we can build our future. One thing is certain: The world is steadily growing. Each year the global population rises by around 83 million, roughly the number of people living in Germany.

So there is a lot to do. And this will enable us to grow. Our strategy has put us in a good position to do so. I am certain that the global BASF team will continue to successfully take advantage of opportunities for innovation and growth. The team will – and this is vital – continue to provide valuable contributions to the success of our customers.

Dear shareholders, on behalf of the Board of Executive Directors and the Supervisory Board, I would like to thank you for your trust in BASF and I hope that you will continue to accompany us in the future.

#### **Forward-looking statements**

This document contains forward-looking statements. These statements are based on current estimates and projections of BASF management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict, and are based upon assumptions as to future events that may not be accurate. Many factors could cause the actual results, performance or achievements of BASF to be materially different from those that may be expressed or implied by such statements. BASF does not assume any obligation to update the forward-looking statements contained in this document.









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